

**Article 43 – Appendices**

**Appendix 7 – Expert Panel - Summary of Findings**

**Report**

**Task I: Expert Panel Review of Preliminary Study Findings**



Prepared for:

The United States Postal Service  
The United States Department of State  
The Postal Rate Commission

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NOTE: Representatives of the State Department, Postal Rate Commission, and the Postal Service were observers to the expert panel facilitation.

## **Task I: Expert Panel Review of Preliminary Study Findings**

### ***I. Task Requirements as Specified in Task I of the Joint Study on Article 43***

*This task requires that a selected group of mailers and other industry representatives (trade associations, etc.) be provided with sufficient information on ABA remail alternatives so that they can provide confidential estimates of the quantity of mail that could be diverted from the domestic-only mail stream to an ABA remail stream. The group meeting agenda was to include an introduction, information/training module, group discussion, and solicitation of potential ABA remail volume estimates and other information designed to assist in assessing the reliability of the estimates.*

### ***II. Panel Organization and Composition***

Potential participants in the panel were identified from several sources. First, study team members identified organizations and individuals that were believed to possess sufficient expertise to provide an informed viewpoint on potential diversion of mail to ABA remail. These individuals and organizations were outlined via memorandum to the study team. Second, companies with large First-Class, Standard A, and Periodicals mail volumes were identified from the US Postal Service's CBCIS file. Senior officers from these companies, as well as the individuals/organizations identified by the study team were subsequently recruited for participation in the panel discussion.

A total of six industry experts and prominent mailers/business partners participated in the five-hour panel discussion, held in Philadelphia on October 30, 2001. Participants included officers of mailing trade organizations as well as high volume mailers. Because these senior officials were well versed in industry issues, they were able to provide an assessment of the likely behavior of other mailers as well as their own organizations. Each participant received a special letter of invitation from the State Department encouraging their participation.

### ***III. Information Module Overview***

Panel members were provided with background information on the study, and the UPU provisions relating to ABA remail, prior to participating in the discussion. In addition, a detailed information module, including an overview of the research, analysis, and preliminary findings of the study was presented during the panel session.

The information module contained several elements: a) study overview, b) preliminary findings from the review of USPS data sources, the hybrid focus groups/mailed survey and qualitative interviews, c) a detailed description of the Remail Impact Model (RIM), and d) projections of potential remail volumes that would result if key UPU provisions were removed. The key preliminary findings that were presented within the information module included the following:

- Only a limited amount of (current) ABA remail volume exists.
- Roughly one-third of high-volume mailers would engage in remail if restrictions were removed.
- The vast majority of mailers that are likely to remail would do so within the first two years of the removal of restrictions.
- If all governing UPU constraints were removed, an estimated 17.1 billion pieces of domestic mail could be diverted to ABA remail, with a corresponding net loss of \$4.3 billion.
- While the majority of mailers do not view Article 49 provisions to be strong deterrents, the System Harmonization Mechanism could curb remail volumes considerably, as could the Bulk Mailing Option, provided these measures can be enforced.

#### ***IV. Panel Observations and Recommendations***

Panel members indicated that they were comfortable with the level of depth and rigor of the analysis that had been undertaken. There were some modest concerns that a portion of the mailers participating in the larger survey might have overstated the extent to which they would switch their pieces to remail options, reflecting the fact that these mailers might engage in a "small-scale trial" to learn more about this mailing alternative, and not divert a significant volume of their mail in the short-term. Additionally, panel members voiced a concern that the modeling assumptions used regarding the cost of worksharing activities had been too high, and suggested that these costs be reduced to a level commensurate with 20% of the postage savings. Conversely, panel members supported the modeling assumption that foreign-based mail production and preparation costs would be similar to US-based costs. While several of the panel members' organizations currently operate foreign mail production facilities (and affirm that these facilities often enjoy lower operating costs), they pointed to the fact that the additional cost of managing these operations, dealing with production quality issues, and transporting materials essentially offset any production cost savings. No other major comments or concerns were articulated about the analytic approach.

Regarding the preliminary conclusions presented by the study team, a number of insightful and useful comments were offered. First, panel members agreed with the study's conclusion that ABA remail is not widely practiced at this time. They viewed ABA remail as a fringe activity that is currently practiced by only a small minority of companies.

If UPU provisions were eliminated (and no other measures were taken to offset possible domestic mail diversion), panel members felt that the reported 35% of mailers who would engage in ABA remail seemed reasonable, provided that key quality control issues and concerns over foreign indicia were adequately addressed, and arbitrage opportunities were sustainable. If experience with ABA remail were to continue to be positive, this percentage, according to panelists, could even be exceeded. Panel members took issue with the assertion that the majority of these mailers would engage in the practice within the first two years of Article 43's elimination. Their experience suggests that adoption of new mailing practices, particularly products as complicated as this one, typically occurs at a much slower pace, because of the time it takes for mailers to become aware of such options, analyze the pros and cons of new alternatives, and make the internal decisions necessary to begin using them.

The assertion that up to 17.1 billion pieces of mail and \$4.3 billion in revenue could be lost to ABA remail annually (if all Article 43 and 49 provisions were eliminated) was viewed with some skepticism. Some panel members felt this represented an "upper limit" for ABA remail volume in the initial years, a level that would only be achieved if experiences with remail were positive and concerns about other factors, such as indicia, time-in-stream, and production quality were addressed. In practice, they felt that the real number could be much lower due to a slow adoption curve by mailers, difficulties associated with the logistics of ABA remail, and a reticence by many high-volume mailers to engage in a practice that might undermine the U.S. Postal Service's infrastructure and daily operations. In the long term, however, panel members believed that the practice could become even more widespread than the 17.1 billion pieces reported, if mailers had positive experiences with remail and the arbitrage rates remained high.

Panel members believed that elimination of Article 43 alone, however, would likely not precipitate major remail activity. If Article 49 provisions (particularly the 50 Tonnes Systems Harmonization Mechanism threshold) could be enforced, they would effectively cap potential ABA remail revenue losses at around \$1 billion. Furthermore, with the Article 49 provisions in place, panel members thought it would be unlikely that any major mailers or consolidators would become involved in the practice, given the limited volume of mail that could be absorbed by eligible countries before Systems Harmonization caps were met. Under these conditions, they argued that ABA remail would be undertaken only by a "fringe" element, bent on finding a least cost alternative. If their assertions were true, the Postal Service's possible revenue loss would be minimal.

Irrespective of the quantity of potential remail volumes, panel members suggested that ABA remail intuitively seems "unnatural." To them, it does not make sense for U.S. mailers to take domestic mail "offshore" simply to take advantage of lower postage rates. Even though mailers can, and do, take advantage of lower offshore production costs (e.g., printing, etc.), the experts feel

delivery rate differences (i.e., postage) should not put the U.S. Postal Service at a disadvantage. The panelists do not perceive that the practice would be the result of any real technical, logistic, or economic progress. Rather, the advent of ABA remail would be driven merely by a "manipulation" of the terminal dues system for specific mail classes and weight steps. The idea that an entirely new mailing practice could arise without any intrinsic economic merit seems inappropriate, and panel members did not feel such a scenario would be sustainable over the long term, since ultimately there would be a need to "pay the piper" (i.e., measures would have to be taken over time to reduce or eliminate the arbitrage opportunities offered by the current terminal dues system).

If sustained conditions allowed ABA remail to become widely used, panel members agreed that many stakeholders would be affected, as indicated in the table on the next page. All stakeholders would either gain or lose from the expanded use of ABA remail. For some, the gains and/or losses would be significant. For others, such improvements or diminishments would be less noticeable.

**Table 1 Effect on Key Stakeholders of Removing UPU Provisions**

<b>Stakeholders</b>	<b>If Only Article 43 were Removed</b>	<b>If Both Article 43 &amp; 49 were Removed</b>
Large Business Mailers	Minimal effect	Gain (F*)
Small Business Mailers	Small gain (F)	Gain (F)
Single-Piece Mailers/Mail Recipients	Small loss (F, S*)	Loss (F, S)
US Postal Service	Loss (F, S,)	Loss (F,S)
US Postal Service Business Partners	Small loss (F, S)	Loss (F,S)
Foreign Postal Administrations – Developing Countries	Small gain (F)	Gain (F)
Foreign Postal Administrations – Canada	Gain (F)	Small gain (F)
Foreign Postal Administrations – Other Industrialized Countries	Loss (F)	Loss (F)
Foreign Postal Service Business Partners	Gain (F)	Gain (F)
Foreign Privatized Posts	Gain (F)	Gain (F)
Universal Postal Union (UPU)	Small loss (O*)	Loss (O)
US Postal Service Competitors	Gain (F)	Gain (F)

In summary, the U.S. Postal Service and its business partners would stand to lose substantially, as would single-piece (and other) mailers who would need to bear the cost of commensurate rate increases. Business mailers, privatized foreign posts, and developing countries' postal administrations would stand to gain the most (at the expense of the U.S. Postal Service and those mailers not taking advantage of remail opportunities), as would other USPS competitors. The list of projected winners and losers concerned the panel members because of its potentially adverse effect on the ability of the U.S. Postal Service to continue to provide the full range of mailing and delivery services they currently expect and now heavily rely on.

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\* F = Financial Impact, S = Service Impact, O = Other Impacts